



Study

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Hispanics and the Current Economic Downturn: Will The Receding Tide Sink Hispanics?

by

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Introduction

The United States economy boomed in the late 1990s. The national unemployment rate fell to under four percent for the first time since January 1970. Real GDP growth per capita averaged 3.2 percent per year between 1995 and 2000, relative to an annual growth rate of 1.9 percent between 1973 and 1990 and 1.3 percent between 1990 and 1995.¹

The evidence from the 1990s also supports President Kennedy's famous statement that "a rising tide lifts all boats." The poverty rate of Hispanics reached an all-time low, while the income of the median Hispanic family rose to a record high.

But the economy began to downshift to a slower pace of economic growth in the second half of 2000 and continued to downshift throughout 2001. For example, in the second quarter of 2001, real GDP growth was only 0.3 percent (at an annual rate), compared to 5.7 percent in the second quarter of 2000.

The terrorist attacks on September 11th accelerated the economic slowdown. They clearly caused severe short-term economic disruptions, especially in New York City. In addition, the terrorist attacks have created a particularly difficult challenge for the travel and tourism industry, have interrupted some economically beneficial business activities that require face-to-face meetings or expedited shipping, and have shaken consumer confidence. As a result, most forecasters now predict that the negative growth recorded for the third quarter of 2002 will be continued into the fourth quarter.²

To be sure, it is difficult to forecast the future course of the U.S. economy. Indeed, several factors suggest a somewhat auspicious outlook. First, the long-term prospects of the U.S. economy remain sound.³ Second, the Federal Reserve has cut

¹ Based on data from the Department of Commerce, Bureau of Economic Analysis.

² A special survey of 50 top economic forecasters by Blue Chip Economic Indicators found that the consensus estimate for real GDP growth in the fourth quarter of this year was negative 0.7 percent.

³ As Federal Reserve Chairman Alan Greenspan stated in Congressional testimony on September 20th, "as we struggle to make sense of our profound loss and its immediate consequences for the economy, we must

short-term interest rates 11 times since January 2001, and by some measures, short-term interest rates are now negative in inflation-adjusted terms. Lower short-term interest rates should have a beneficial impact on business investment. Third, energy prices have fallen significantly, with the average price of unleaded gasoline dropping from \$1.73 per gallon in May 2001 to \$1.43 in August 2001, and even lower as of this writing.⁴ Finally, the Federal government is providing a substantial fiscal stimulus. The “automatic stabilizers” of the Federal budget (such as the reduction in tax payments and increase in unemployment insurance payments) will spur demand as the economy slows. In addition, Congress has already approved roughly \$40 billion in additional fiscal stimulus packages, and may approve another stimulus package in the range of \$75 billion and \$100 billion. Nonetheless, the future course of consumer confidence remains uncertain, and it is clear that economic growth is far below its potential growth rate.

The purpose of this paper is to examine the potential impact of the current economic downturn on Hispanic workers and families, and analyze how prepared Hispanics are for the economic recession.⁵ The paper is divided into four sections: The first section briefly explores the progress made by Hispanics during the economic boom of the 1990s. The second section uses the experience of Hispanics in past economic downturns to predict how they will fare in the current economic slowdown. The third section analyzes how well prepared Hispanic workers are for the economic slowdown. The final section draws conclusions based on the first three sections.

not lose sight of our longer-run prospects, which have not been significantly diminished by these terrible events.” See Alan Greenspan, Testimony before the Committee on Banking, Housing, and Urban Affairs, United States Senate, September 20, 2001.

⁴ See Gale, Orszag, and Sperling (2001), page 256.

⁵ “Hispanic” includes all workers who are of Hispanic origin. As part of the various government surveys, people are asked a question regarding their origin or descent. Respondents are asked to select their origin (and the origin of other household members) from a “flash card” listing Mexican, Puerto Rican, Cuban, Central or South American, or some other Hispanic origin. It should be noted that persons of Hispanic origin may be of any race.

I. The 1990s: A Rising Tide Lifts All Boats

In February 2000, the U.S. economy reached a milestone: the economic recovery that officially began in March 1991 became the longest economic expansion in history. The length of the 1990s expansion was impressive. But the depth and steadiness of the expansion were truly remarkable.

Nationally, the unemployment rate fell from nearly eight percent in mid-1992 to less than four percent in 2000, a level most economists thought was impossible to reach again while maintaining low and stable inflation. Even productivity growth, which for two decades had remained sluggish, increased significantly in the 1990s, at least partly due to massive investments in informative technology.⁶

The exceptional macroeconomic performance of the 1990s lifted the boats of all segments of American society. As the economic expansion continued, businesses reached deeper and deeper into the labor market to find workers, which created new employment opportunities for low-income workers. One effect of such a “high-pressure” economy was a sharp drop in poverty. The overall poverty rate fell from 15.3 percent in 1993 to 11.3 percent in 2000 – its lowest level since 1974 – and the child poverty rate declined from 22.7 percent in 1993 to 16.2 percent in 2000.

The economic prosperity had a particularly beneficial impact on Hispanics. As Table 1 indicates, every major economic indicator for Hispanics moved in a positive direction in the 1990s. The number of employed Hispanics rose from 10 million in 1992 to 14.5 million in 2000. The Hispanic unemployment rate fell from 11.6 percent in 1992 to 5.7 percent in 2000; the Hispanic unemployment rate reached 5.0 percent in October 2000 – its lowest level since the Bureau of Labor Statistics began to collect monthly statistics on Hispanics in 1973.⁷ In addition, the Hispanic unemployment rate fell

⁶ See, for example, Alan Greenspan, “The Revolution in Information Technology,” Speech Delivered to the Boston College Conference on the New Economy, March 6, 2000.

⁷ The unemployment rate is measured as the number of unemployed workers as a share of the labor force. Thus, one shortcoming of the official unemployment rate is that it excludes workers who would like to

significantly in each of the eight largest states; for example, in California, the Hispanic unemployment rate dropped from 13.1 percent in 1992 to 6.5 percent in 2000.

A couple of academic studies have shown that recent Hispanic immigrants fare relatively poorly in the labor market. But as the immigrants assimilate into society, they perform better than native-born Hispanics.⁸ Interestingly, the decline in the Hispanic unemployment rate in the late 1990s was disproportionately concentrated among foreign-born Hispanics. In 1996, the unemployment rates of native-born and foreign-born Hispanics were roughly equal: 9.0 percent and 8.9 percent, respectively. By 2000, the native-born Hispanic unemployment rate had fallen to 6.4 percent, while the foreign-born Hispanic unemployment rate dropped to 5.1 percent.

But the Hispanic labor force is even more diverse than just foreign-born and native-born workers. The Bureau of Labor Statistics reports data for Hispanics of Mexican, Puerto Rican, and Cuban origin. In 2000, among Hispanics, those from Puerto Rico had the highest unemployment rate (7.4 percent), while Cuban Hispanics had the lowest unemployment rate (4.4 percent). Despite these differences, each of these groups of Hispanics experienced similar percentage declines in unemployment during the second half of the 1990s. The unemployment rate of Hispanics of Mexican origin declined from 9.7 percent in 1995 to 5.9 percent in 2000; the unemployment rate of Hispanics of Puerto Rican origin dropped from 11.2 percent in 1995 to 6.4 percent in 2000, and the unemployment rate of Cuban Hispanics fell from 7.4 percent in 1995 to 4.4 percent in 2000.

As Hispanic unemployment dropped in the late 1990s, the Hispanic poverty rate also fell sharply, from 30.3 percent in 1995 to 21.2 percent in 2000. Such a drop in the poverty rate means that more than 1.4 million Hispanics – including 750,000 Hispanic children – were lifted out of poverty between 1995 and 2000.

have a job, but have given up looking for one and have dropped out of the labor force. The Bureau of Labor Statistics started to collect data on such “discouraged” workers in 1994. The number of Hispanic discouraged workers declined by more than 50 percent between 1994 and 2000, falling from 70,000 in 1994 to 34,000 in 2000.

⁸ See Meisenheimer (1992) and Sehgal (1985).

Median family income among Hispanics also improved dramatically. It rose from \$27,588 in 1995 to \$35,050 in 2000 (in constant 2000 dollars), a 4.9-percent real annual increase. Hispanic families in every region of the country prospered (see Table 1). In addition, the income gains in the late 1990s were widely shared among Hispanics: every income group from the richest to the poorest Hispanics saw income gains of at least 15 percent, adjusted for inflation, and the poorest 20 percent of Hispanic families experienced the largest income gains (32 percent in real terms). See Figure 1.

As income improved during the 1990s, the financial position of Hispanics strengthened. Between 1992 and 1998, the median net worth of Hispanic families increased 23 percent, rising from \$7,889 in 1992 to \$9,720 in 1998 (in constant 1998 dollars). A more narrow perspective on the financial position of Hispanics is median financial assets, which is a measure of how much Hispanic families have stored away in relatively liquid assets: Median financial assets also increased substantially (albeit from low levels), rising from \$349 in 1992 to \$1,200 in 1998.

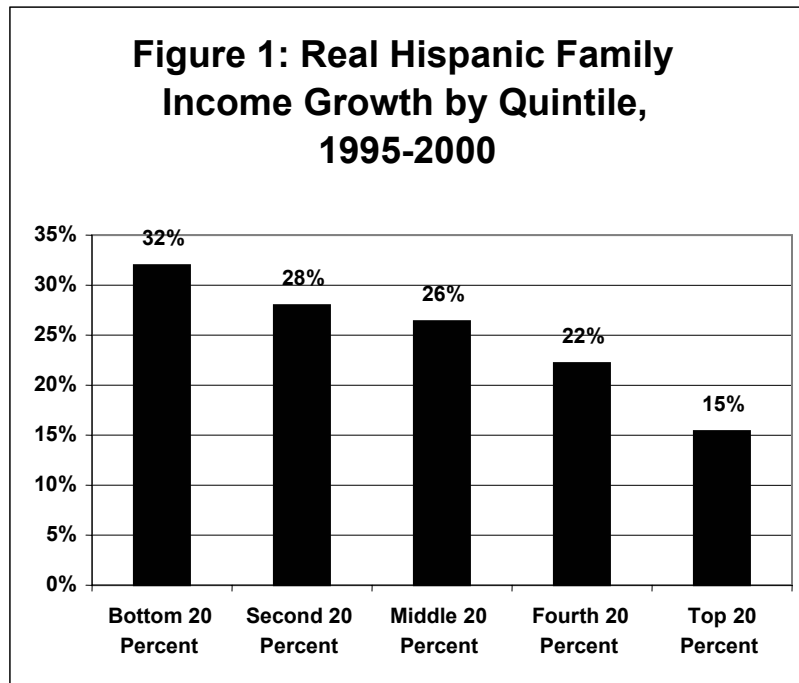
Despite the economic gains achieved by Hispanics in the 1990s, two areas of concern are prominent. First, Hispanics still lag behind the rest of the population along nearly every economic indicator. For example, the typical weekly earnings of full-time Hispanic workers (\$396 per week in 2000) were just 67 percent of the weekly earnings of full-time white workers (\$591 per week in 2000). In 2000, the white unemployment rate was 3.5 percent, compared to 5.7 percent among Hispanics.

**Table 1:
Hispanic Economic Indicators Over the Past Decade**

	Peak 1989	Trough 1992	Peak 2000
Hispanic Unemployment Rate	8.0%	11.6%	5.7%
Hispanic Unemployment Rate For 8 Largest State			
California	7.6%	13.1%	6.5%
Florida	7.4%	10.2%	4.8%
Illinois	6.1%	10.7%	4.7%
Michigan	13.2%	14.7%	6.6%
New York	8.0%	14.5%	6.9%
Ohio	10.5%	12.9%	6.3%
Pennsylvania	7.6%	14.8%	5.4%
Texas	10.2%	9.7%	5.0%
Hispanic Employment (in thousands)	8,573	10,027	14,492
Hispanic Employment-to- Population Ratio	62.2%	59.1%	64.7%
Hispanic Poverty Rate	26.2%	29.6%	21.2%
Hispanic Child Poverty Rate	36.2%	40.0%	28.0%
Hispanic Median Family Income (in constant 2000 dollars)	\$ 31,616	\$ 28,421	\$ 35,050
Hispanic Median Family Income by Region (in constant 2000 dollars)			
Northeast	\$ 30,512	\$ 24,090	\$ 31,866
Midwest	\$ 35,544	\$ 28,251	\$ 39,389
South	\$ 27,671	\$ 27,255	\$ 35,816
West	\$ 34,401	\$ 30,709	\$ 34,821
Hispanic Homeownership Rate	n.a.	41.2% (1994)	46.3%
Hispanic Median Net Worth	\$6,573	\$7,889	\$9,720
Hispanic Median Financial Assets	\$789	\$349	\$1,200

Source: Data on unemployment and employment are from the Bureau of Labor Statistics, Current Population Survey, various years. Data on poverty, family income, and homeownership are from the Bureau of the Census. Poverty and family income data are from the March Current Population Survey, various years. Homeownership data are from the Current Population Survey/Housing Vacancy Survey. Data on net worth and financial assets are from the Federal Reserve's Survey of Consumer Finances.

Second, the dramatic gains among Hispanics during the 1990s may be temporary. It is unclear whether Hispanics will be permanently better off because of the 1990s economic boom or whether their gains will be completely lost in the current economic downturn. Whether the gains are lost will not be known for some time, but there are reasons to be hopeful that Hispanics will be permanently better off because of the recent economic expansion. Hines, Hoynes, and Krueger (2001) conclude that a “high-pressure economy makes it somewhat more likely that workers will move from dead end jobs to jobs with upwardly sloping seniority profiles.”⁹ In other words, since many Hispanics likely moved into “better” jobs during the good economic times, these workers are more likely to be in a better position to benefit from future economic gains.



II. The Current Economic Downturn: How Will Hispanics Fare?

A significant body of academic research has found that labor market indicators are procyclical – that is, when economic growth slows, labor market indicators

⁹ Hines, Hoynes, and Krueger (2001), page 3.

deteriorate, and vice-versa.¹⁰ The weight of the evidence also suggests that labor market indicators for minority groups, such as Hispanics, are more sensitive to changes in economic conditions.¹¹

The purpose of this section is to use historical experience to examine how indicators of Hispanic well-being may fare during the current economic downturn. It is important to emphasize that forecasting is an inherently difficult task: as Niels Bohr, a Nobel Prize winning physicist, once said, “prediction is very difficult, especially if it’s about the future.” Because of the uncertainty involved in forecasting the course of Hispanic economic indicators, we utilize two different methodologies to develop a range of potential outcomes during the current economic downturn.

The first, and more rigorous, approach combines the historical relationship between a macroeconomic indicator (such as overall unemployment) and an Hispanic indicator (such as median family income) with forecasts for the macroeconomic variable to predict future changes in the Hispanic indicator.¹² We use three different forecasts of overall unemployment – a central estimate, a low estimate, and a high estimate – to develop our range of estimates for Hispanic unemployment, overall poverty, and median family income. First, we use the average estimate of unemployment of fifty economic forecasters, as reported by the Blue Chip Economic Indicators.¹³ Then we also use the average estimate of unemployment of the highest and lowest 10 forecasters, respectively.

¹⁰ See, for example, Blanchard and Katz (1992), Hoynes (2000), Blank and Blinder (1986), Blank and Card (1993), Cutler and Katz (1991), and Freeman (2001).

¹¹ See, for example, Newman (1978), Abowd and Killingsworth (1984), DeFreitas (1986), and DeFreitas (1991). Reimers (2000) found that Hispanic men and women benefit “slightly more than whites (but less than blacks) because Hispanics, on average, have less education than their white counterparts. But when industry, occupation, education, and age level are identical, Hispanic men’s unemployment are *less* sensitive to local unemployment rates than are those of white men.” See Reimers (2000), page 4.

¹² The model we use to estimate changes in the Hispanic unemployment rate is: $Hue_t = \alpha + \beta Ue_t + \varepsilon_t$, where Hue_t equals the Hispanic unemployment rate in time period t and Ue_t equals the total unemployment rate in time period t . We use a slightly different model to predict changes in Hispanic poverty: $HPovertyDifference_t = \alpha + \beta UeDifference_t + \varepsilon_t$, where $HPovertyDifference_t$ equals the difference in Hispanic poverty between time period t and time period $t-1$ and $UeDifference_t$ equals the difference in total unemployment between time period t and time period $t-1$. We use a similar model to forecast changes in Hispanic family income.

¹³ According to a number of academic studies, using an average of a range of private-sector forecasts is advantageous: Average forecasts tend to be more accurate – that is, they have smaller errors – than individual forecasts. See, for example, Schuh (2001) and Zarnowitz and Braun (1993).

To provide a sense of the difference in estimates, the average estimate of the 2002 unemployment rate among these 50 forecasters is 5.6 percent, while the average of the highest 10 forecasters is 6.2 percent and the average of the lowest 10 forecasters is 5.1 percent.

It is worth noting that the current Blue Chip forecasts remain relatively optimistic: The central forecasts suggest a strong recovery by the middle of 2002, and even the most pessimistic 10 forecasts suggest a robust recovery by then. Although the Blue Chip forecasts are the best ones available, the uncertainty surrounding the forecasts seems particularly high – and it is therefore crucial to realize that to the extent the Blue Chip forecasts turn out to have been too optimistic, the projections from this first approach would be too optimistic also.

Partially to address the concern that the Blue Chip forecasts may be too optimistic, we also adopt a second approach, which applies changes in Hispanic indicators during past recessions (in the 1970s, 1980s, and 1990s) to the current level of the indicator. That is, if the Hispanic unemployment rate rose by 14 percent over the first six months of the 1980s recession, then we project the Hispanic unemployment rate for March 2002 to be 14 percent above its level in September 2001 (or 7.3 percent compared to 6.4 percent in September 2001). While this approach is not based on regression analysis, it does allow us to explore the impact of a recession that has similar effects to past recessions.

We apply these two methodologies to three major indicators of Hispanic economic well-being: unemployment, family income, and poverty. We also apply these methodologies to more detailed subcategories of each of these indicators, such as state unemployment rates, median family income by region, and child poverty.

Hispanic Unemployment Rates

During the economic boom of the 1990s, the Hispanic unemployment rate reached its lowest level ever recorded. But Hispanic unemployment has climbed 2.6 percentage points in the past 13 months, from 5.0 percent in October 2000 to 7.6 percent in November 2001.

Figure 2 shows the projections of Hispanic unemployment based on a projection of the historical relationship between Hispanic unemployment and overall unemployment, using the overall unemployment forecasts in the Blue Chip Economic Indicators.¹⁴ Using the average forecast of quarterly overall unemployment, the Hispanic unemployment rate rises from 7.6 percent in November 2001 to 8.4 percent in the first quarter of 2002, and continues to rise to 8.5 percent in the second quarter before leveling out. The Hispanic unemployment rate then begins to fall again in the fourth quarter of 2002.

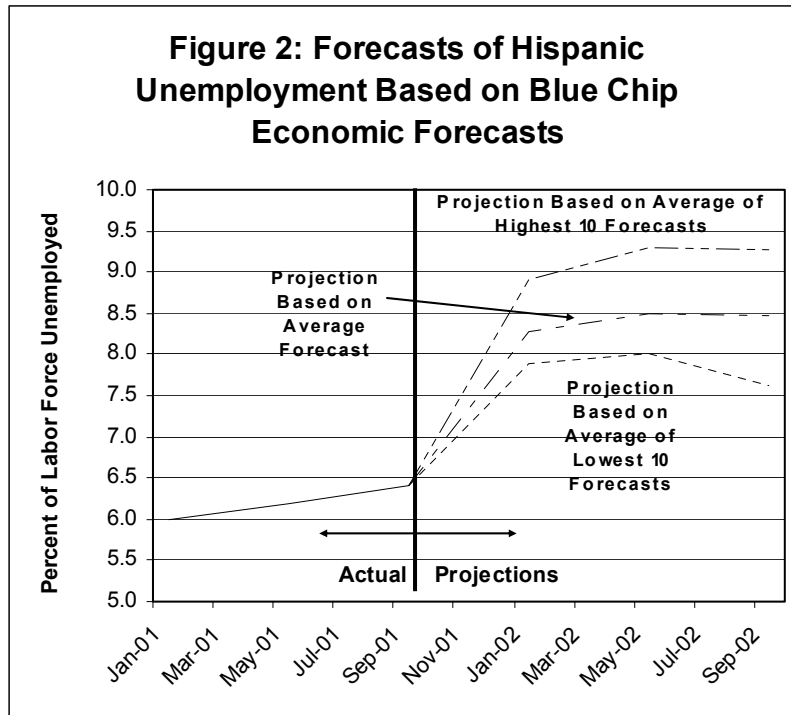
Using the estimates of unemployment of the highest and lowest 10 forecasters provides a range of possible results. Under the average of the pessimistic forecasts, Hispanic unemployment could rise as high as 9.3 percent in the second quarter of 2002 before falling to 9.2 percent in the fourth quarter. Such a level would be 86 percent above the Hispanic unemployment rate achieved in October 2000 and would mean that nearly 700,000 more Hispanics were unemployed. Under the average of the more optimistic forecasts, Hispanic unemployment would rise to 8.0 percent in the first quarter of 2002 and then would start to drop in the third and fourth quarters (reaching 7.5 percent by the end of 2002).

¹⁴ For predicting Hispanic unemployment rates, we use the quarterly overall unemployment rate forecasts from the Blue Chip Economic Indicators, which are available through the end of 2002. For all other forecasts, we use annual forecasts through 2004.

The second method applies percent changes in Hispanic unemployment during the 1970s, 1980s, and 1990s recession to the September 2001 Hispanic unemployment rate.¹⁵ See Figure 3.

- *1970s Recession.* If the current recession were to follow the path of the recession from November 1973 to March 1975, the Hispanic unemployment rate would remain relatively steady through 2002 and then rise sharply at the beginning of 2003. The Hispanic unemployment rate would reach more than 10 percent in the spring of 2003 before declining somewhat in late 2003 and 2004. It is important to note that during the expansion following the 1970s recession, the unemployment rate of Hispanics did not reach its pre-recession level of 8.0 percent until February 1979. If Hispanic unemployment were to follow that path during the current economic slowdown, the Hispanic unemployment rate would not fall below 6.4 percent until January 2007.
- *1980s Recession.* If the current downturn were to mimic the early 1980s recession, Hispanic unemployment would rise to nearly 10 percent in early 2003. It would then drop sharply by the end of 2003 and 2004, falling from nearly 10 percent to 6.5 percent in the late summer of 2004. In other words, by September 2004, the Hispanic unemployment rate would return to its pre-recession level. For comparison, the unemployment rates of whites and African Americans would bounce back to their pre-recession levels at roughly the same time: If the white and African-American unemployment rates follow their same path as during the 1980s recession, they would both fall back to their September 2001 level in August 2004.

¹⁵ For the purposes of mapping previous recessions onto the current unemployment rate, we assume that September 2001 is the start of the current recession.

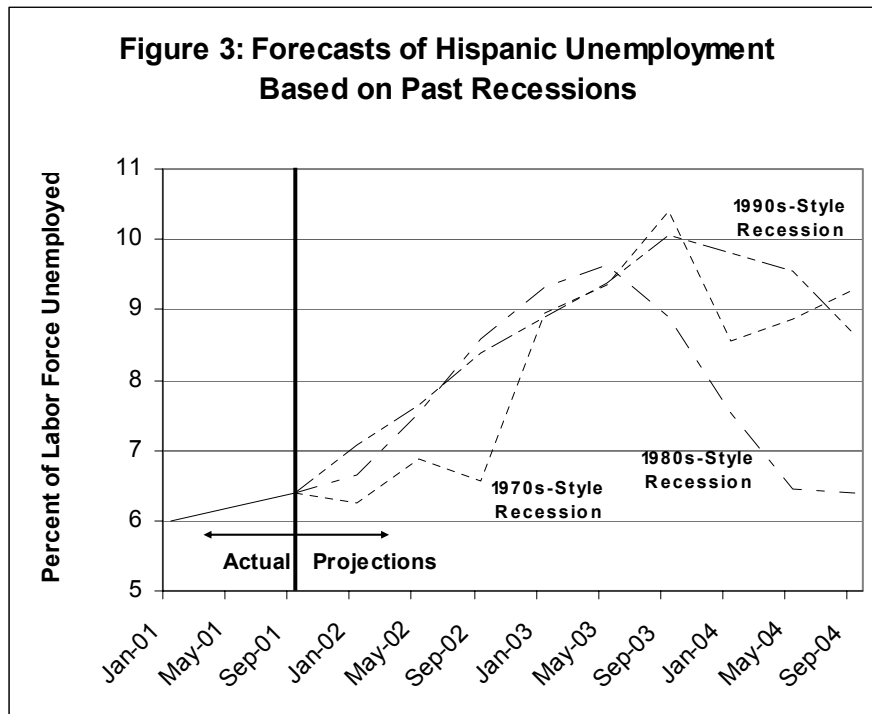


- 1990s Recession.** If the Hispanic unemployment rate tracks its changes during the 1990-1991 recession, it will rise to roughly nine percent by the end of 2002, continue to rise to roughly 10 percent in late 2003 and early 2004, and then decline to under nine percent in late 2004. During the early part of the expansion following the 1990s recession, Hispanic unemployment did not fall as rapidly as the white or African-American unemployment rates. For example, the white and African-American unemployment rates returned to roughly their pre-1990s recession level by the beginning of 1995. The Hispanic unemployment rate did not fall to its pre-1990s recession level until December 1996. If Hispanic unemployment were to follow that path during the current economic slowdown, the Hispanic unemployment rate would not fall below 6.4 percent until March 2008; for comparison, the white and African-American unemployment rates would return to roughly their pre-recession levels by early 2006.

Using both methodologies, the Hispanic unemployment rate does not rise as high as it reached during the 1990s recession; Hispanic unemployment peaked at 12.1 percent in June 1992. In other words, since the Hispanic unemployment rate recently reached

record lows, increases in the unemployment rate similar to those that occurred in previous recessions would not raise Hispanic unemployment to the same levels it had reached in those previous downturns. This result reflects one way in which the economic prosperity of the 1990s could have a long-term positive impact on Hispanic unemployment rates.

Note that the forecasts of Hispanic unemployment rates based on past recessions are higher than those based on the Blue Chip macroeconomic forecasts. This disparity is not surprising, given the relatively optimistic nature of the Blue Chip forecasts (that is, the Blue Chip forecasts suggest that the current recession will be relatively mild and short-lived).



Since the National Bureau of Economic Research (NBER) Business Cycle Dating Committee announced on November 26, 2001 that a recession began in March 2001, some additional insight is offered by examining the change in unemployment rates over the past eight months. Since March 2001, the Hispanic unemployment rate has increased 1.3 percentage points, rising from 6.3 percent to 7.6 percent in November 2001. For comparison, over the same time period, the white and African-American unemployment

rates have risen by 1.4 percentage points and 1.5 percentage points, respectively. (Table 2 presents the changes in Hispanic, white, and African-American unemployment rates during the first eight months of the early 1980s, 1990s, and the current recessions.) Such similar rises suggest that Hispanics may not have fared worse *so far* during the current economic slowdown. But the comparison may be somewhat deceptive: Since October 2000 – when the unemployment rate reached its low point – the Hispanic unemployment rate has risen by 2.6 percentage points, compared to a 1.7 percentage point increase for white unemployment and a 2.7 percentage point increase for African-American unemployment between October 2000 and November 2001. In other words, the recession appears to have started somewhat earlier for Hispanics and African Americans than for white workers.

Table 2: Changes in Unemployment Rates by Race During First Eight Months of Current and Previous Recessions			
	Change in Hispanic unemployment	Change in white unemployment	Change in African- American unemployment
1980s recession	2.2 percentage points	1.7 percentage points	3.1 percentage points
1990s recession	1.8 percentage points	1.3 percentage points	1.1 percentage points*
Current recession	1.3 percentage points	1.4 percentage points	1.5 percentage points

* The month before the 1990 recession began the African-American unemployment rate increased 0.9 percentage points. Over the eight months beginning the month before the 1990 recession officially started, the African-American unemployment rate increased 1.7 percentage points.

As noted above, first-generation Hispanics experienced a larger decline in unemployment during the 1990s than native-born Hispanics. Since the Bureau of Labor Statistics only recently began collecting regular data on native-born and immigrant Hispanics, it is difficult to estimate how each group may fare in the current economic downturn. If each group's unemployment rate increases in line with the overall Hispanic unemployment rate and the overall Hispanic unemployment rate rises to 8.5 percent, the unemployment rate of first-generation Hispanics would rise from 5.1 percent in 2000 to

7.6 percent in the middle of 2002 and the unemployment rate of native-born Hispanics would increase from 6.4 percent in 2000 to 9.5 percent in the middle of 2002. If, instead, the overall Hispanic unemployment rate increases to 10 percent, the immigrant Hispanic unemployment rate may rise to 8.9 percent, while the native-born unemployment rate would rise to 11.2 percent.

State Unemployment

Table 3 presents data on Hispanic unemployment rates for the eight largest states, including forecasts of Hispanic unemployment if the current economic slowdown follows the paths of the 1980s and 1990s recessions in each of the states. The Hispanic population is disproportionately located in the southern and western parts of the United States. Indeed, roughly half of all Hispanics reside in California and Texas alone.¹⁶

It is important to caution that these data are based on relatively small sample sizes. Thus, the probability that movements in a state's Hispanic unemployment rate are due to statistical variation, instead of changes in the real economy, is greatly increased. For example, the Bureau of Labor Statistics reports that when the Michigan Hispanic unemployment rate was 6.6 percent in 2000, the confidence interval on that number was plus or minus 2.4 percentage points. In other words, a change in the Hispanic unemployment rate in Michigan of less than 2.4 percentage points would be statistically insignificant. Despite the small sample sizes, Table 3 provides a sense of the potential changes in state-level Hispanic unemployment rates during the next few years.

Employment by Industry

In 2000, Hispanic workers accounted for 10.7 percent of the United States workforce. As Table 4 indicates, Hispanic workers were disproportionately concentrated in agriculture, construction, manufacturing, and retail trade. For comparison, African-

¹⁶ See U.S. Bureau of the Census, "The Hispanic Population: Census 2000 Brief," May 2001, page 4. Nearly 73 percent of Hispanics reside in the eight largest states; for comparison, 48 percent of the U.S. population lives in the eight largest states.

American workers were disproportionately employed in transportation, communications, and other public utilities, the service sector, and government.

Table 3: Forecasts of Hispanic Unemployment Based on Past Recessions, By State							
		<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
California							
	1980s-Style Recession	7.0%	6.5%	8.8%	8.6%	6.6%	6.3%
	1990s-Style Recession	7.0	6.5	9.1	10.4	9.9	9.0
Florida							
	1980s-Style Recession	5.2	4.8	6.8	6.8	4.2	3.6
	1990s-Style Recession	5.2	4.8	5.5	6.2	5.3	5.6
Illinois							
	1980s-Style Recession	5.5	4.3	6.8	5.4	4.8	4.4
	1990s-Style Recession	5.5	4.3	6.6	7.1	5.0	4.8
Michigan							
	1980s-Style Recession	6.4	6.6	7.8	10.3	6.4	5.6
	1990s-Style Recession	6.4	6.6	6.2	7.9	5.3	4.9
New York							
	1980s-Style Recession	8.4	6.9	8.2	7.6	7.6	7.9
	1990s-Style Recession	8.4	6.9	9.7	13.2	11.9	9.5
Ohio							
	1980s-Style Recession	4.9	6.3	15.2	10.8	11.4	16.0
	1990s-Style Recession	4.9	6.3	6.1	8.8	6.1	4.3
Pennsylvania							
	1980s-Style Recession	10.7	5.4	5.1	6.6	5.0	2.3
	1990s-Style Recession	10.7	5.4	9.4	9.0	11.2	5.9
Texas							
	1980s-Style Recession	6.2	5.0	6.7	8.0	6.1	6.7
	1990s-Style Recession	6.2	5.0	5.1	5.6	5.3	4.9

Note: Numbers in italics are forecasts

The evidence from the 1990-1991 recession suggests that Hispanics work in industries that are more prone to layoffs than the non-Hispanic workforce. For example, between 1989 and 1992, while total employment increased by over 1.1 million jobs, the

manufacturing and construction industries lost more than 2.1 million jobs; both industries have a disproportionate share of Hispanic workers. Another perspective is offered by applying the overall percentage change in employment by industry from 1989 to 1992 to the 1989 distribution of Hispanic and non-Hispanic employment. We calculate that if Hispanics had been identically distributed among industries as non-Hispanic workers, Hispanic job growth would have been substantially more rapid.

In the current economic downturn, industries that Hispanics are disproportionately concentrated appear to be suffering the most. Hispanics account for more than one-fifth of the workforce in industries such as the hotel industry, agriculture, laundry services, and textiles. Some of these industries have been particularly hard hit during the current downturn. For example, the hotel industry was suffering from a significant drop-off in business travel even before September 11th. Since September 11th, occupancy rates have dropped to record lows. In Denver, the hotel occupancy rate fell to 50 percent to 55 percent in September – the worst since the late 1980s.¹⁷ In Las Vegas – where immigrants comprise an estimated 50 percent of unionized hotel and restaurant workers¹⁸ – the MGM Mirage’s properties had their lowest occupancy rate in history between September 11th and September 30th: 64 percent.¹⁹ Such low occupancy rates have led to significant layoffs; a number of big hotel chains, including MGM Mirage and Wyndham International, have announced layoffs in the beginning of October.²⁰ Since Hispanics account for 21 percent of the 1.4 million Americans employed in the hotel and motel industry, they will likely feel the brunt of the layoffs in the hotel industry.

Hispanic Median Family Income

As noted above, the income of the median Hispanic family skyrocketed in the late 1990s, rising 27 percent between 1995 and 2000 (after adjusting for inflation). For

¹⁷ John Rebhook, “City Occupancy Rate Sinks,” *Rocky Mountain News*, October 3, 2001, available at http://www.rockymountainnews.com/drmn/real_estate/article/0,1299,DRMN_414_837882,00.html

¹⁸ See Friedrich (2001).

¹⁹ “MGM Mirage Reports Third Quarter Results,” PRNewswire, October 30, 2001.

²⁰ See http://www.washingtonpost.com/wp-srv/business/legacy/layoff_article.htm

comparison, between 1984 and 1989, the real income of the median Hispanic family increased just six percent.

Table 4: Distribution of Employment by Industry, 2000			
	<u>Distribution of Total Workforce</u>	<u>Distribution of Hispanic Workers</u>	<u>Distribution of African-American Workers</u>
Agriculture	2.4%	5.1%	0.9%
Mining	0.4%	0.3%	0.2%
Construction	7.0%	9.7%	4.1%
Manufacturing	14.7%	17.0%	13.4%
<i>Durable Goods</i>	9.0%	8.5%	7.5%
<i>Nondurable Goods</i>	5.7%	8.4%	6.0%
Transportation, Communications, and Other Public Utilities	7.2%	6.3%	10.0%
Wholesale Trade	4.0%	4.5%	2.7%
Retail Trade	16.6%	19.1%	14.8%
Finance, Insurance, and Real Estate	6.5%	4.2%	6.0%
Services	36.8%	31.3%	41.6%
Government	4.4%	3.0%	6.5%
<i>Total</i>	<i>100.0%</i>	<i>10.7%</i>	<i>11.3%</i>

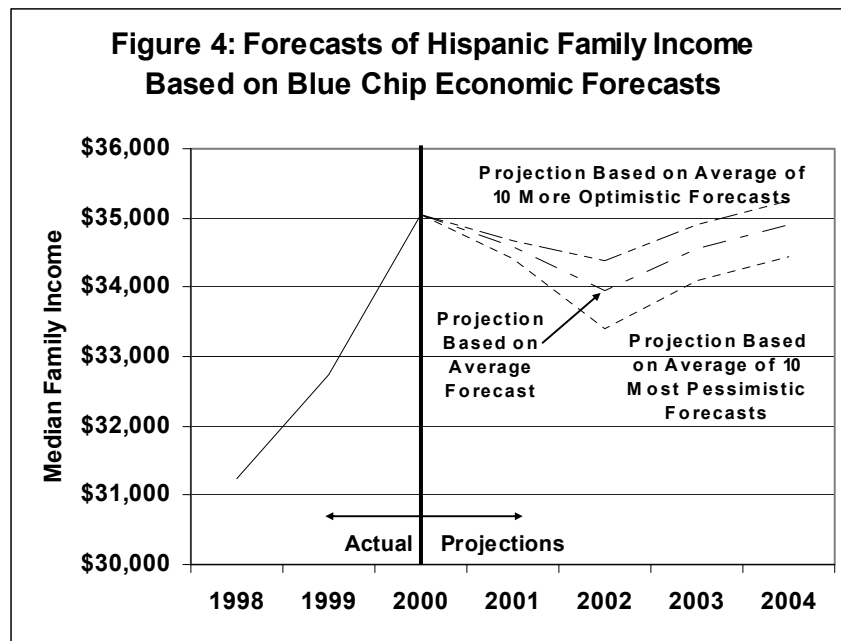
Source: Bureau of Labor Statistics, Current Population Survey.

But changes in economic conditions directly affect the income of Hispanic families. An analysis of the past relationship between median family income of Hispanics and the overall unemployment rate suggests that for each one percentage point increase of overall unemployment, the real income of the typical Hispanic family falls by an average of \$900.

Using the average Blue Chip Economic forecast for the overall unemployment rate, we predict that the median income of Hispanic families will fall from \$35,050 in 2000 to \$33,938 in 2002 – a 3.2 percent drop. (See Figure 4.) The average forecast suggests that unemployment will decline in 2003 and 2004, and as a result, Hispanic family income is expected to rise in those years. But the median income among Hispanic families does not return to its 2000 level until sometime after 2004.

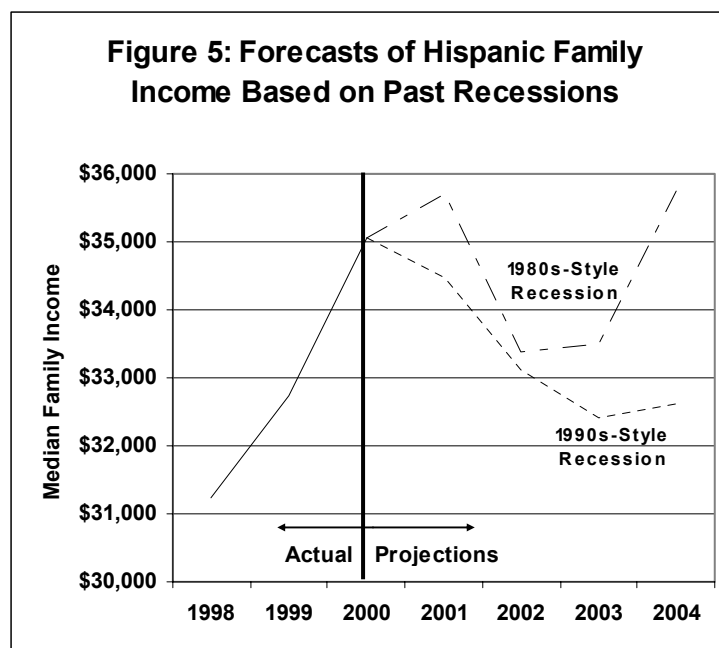
We obtain a range of forecasts of Hispanic family income by using the average estimate of unemployment of the highest and lowest 10 forecasters in the Blue Chip

sample. Under the average of the pessimistic forecasts, real median Hispanic family income would fall to \$33,397 in 2002 before rising to \$34,448 in 2004. Even under the average of the more optimistic forecasts, Hispanic family income would fall in both 2001 and 2002 (but not by as much as under the average forecast) and would return to its 2000 level only in 2004.



The movements in real median family income of Hispanics during past recessions may also be illustrative of what could happen during the current recession.²¹ During the 1981-1982 recession, median Hispanic family income *increased* in the first year of the recession and then dropped significantly. If the current economic downturn mimics the 1980s recession, median Hispanic family income would rebound to its 2000 level in 2004. (See Figure 5.) However, if the real income of the typical Hispanic family follows the path of the 1990s recession, Hispanic income will fall for the next three years before rising slightly in the fourth year: in 2004, real median Hispanic family income will be \$2,441 lower than in 2000.

²¹ Since median family income for Hispanics is available from 1974 to the present, we are not able to use the 1970s recession (which began in 1973).



In addition, following the 1990s recession, Hispanic family income did not return to its pre-recession level until 1999; in other words, if the current recession and subsequent expansion were to follow such a path, median Hispanic family income would not rise above its 2000 level until 2010! For comparison, the median income of African-American families rebounded to its 1989 level by 1994, and the median income of white families returned to its pre-1990 recession level by 1996.

Income by Region

In the late 1990s, Hispanic families in all four major regions of the United States prospered. To provide illustrative examples of what could happen to median Hispanic family income in the Northeast, Midwest, South, and West, we mapped the changes in median Hispanic family income for those regions during past recessions onto the 2000 median family income numbers. See Table 5. For example, in the Northeast, median Hispanic family income would be between six and eight percent below its 2000 level in 2004, if it follows a similar trend as during the past two recessions. On the other hand, the Hispanic families in the West experienced very rapid income growth after the 1981-

1982 recession: if such a pattern repeated itself, real median Hispanic family income would end up 4.3 percent higher in 2004 than its current level.

As with the estimates of unemployment rates by state, median family income by region are based on smaller sample sizes than the aggregate numbers. Thus, they are subject to more statistical variation, which makes interpreting movements between years extremely difficult. Due to the relatively small sample size, it is possible that modest changes in median Hispanic family income in a certain region are due to sampling issues, not real changes in Hispanic well-being.

Table 5: Forecasts of Median Hispanic Family Income Based on Past Recessions, By Region							
		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	% Change from 2000 to 2004
Northeast							
	1980s-Style Recession	\$ 30,243	\$ 30,876	\$ 25,303	\$ 25,499	\$ 27,862	-7.9%
	1990s-Style Recession	\$ 30,243	\$ 30,173	\$ 29,884	\$ 28,121	\$ 28,446	-5.9%
Midwest							
	1980s-Style Recession	\$ 37,839	\$ 38,757	\$ 38,947	\$ 36,276	\$ 36,983	-2.3%
	1990s-Style Recession	\$ 37,839	\$ 36,854	\$ 34,916	\$ 36,452	\$ 41,076	8.6%
South							
	1980s-Style Recession	\$ 33,584	\$ 34,231	\$ 32,957	\$ 33,832	\$ 33,840	0.8%
	1990s-Style Recession	\$ 33,584	\$ 33,814	\$ 30,963	\$ 31,841	\$ 31,380	-6.6%
West							
	1980s-Style Recession	\$ 33,824	\$ 34,784	\$ 33,039	\$ 32,397	\$ 35,294	4.3%
	1990s-Style Recession	\$ 33,824	\$ 32,440	\$ 33,096	\$ 31,712	\$ 30,624	-9.5%

Note: Numbers in italics are forecasts

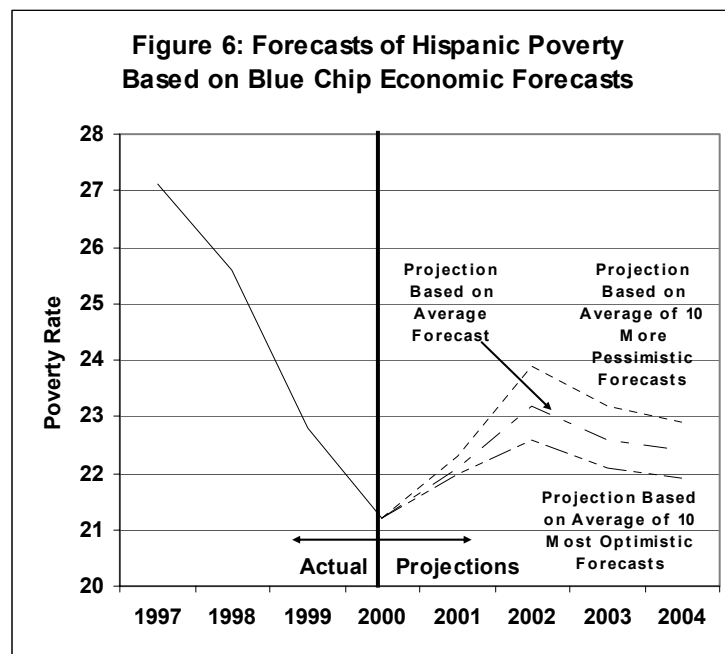
Hispanic Poverty Rate

While the Hispanic poverty rate remains nearly twice as high as the overall poverty rate, the decline in the Hispanic poverty rate was a bright spot of the 1990s economic expansion; Hispanic poverty reached its lowest level since data were first collected in 1972.

Many analysts believe that the best anti-poverty program is a job, and during the late 1990s, jobs for Hispanic workers were plentiful. But the labor market has substantial slack now, and will likely continue to weaken through next year. Such labor market

weakening tends to cause Hispanic poverty to rise: our analysis of the relationship between Hispanic poverty and overall unemployment suggest that each percentage point rise in the national unemployment rate causes the Hispanic poverty rate to increase by an average of 1.2 percentage points.

Some economists argue that the poverty rates of minority groups, such as Hispanics, have become even more sensitive to changes in the unemployment because of a weakening of the social safety net. Richard Freeman, an economics professor at Harvard University, recently said, “I think we will see a rise in the poverty rate. And I think it will be bigger than an historically expected increase, because we have undone a lot of the welfare underpinnings.”²²

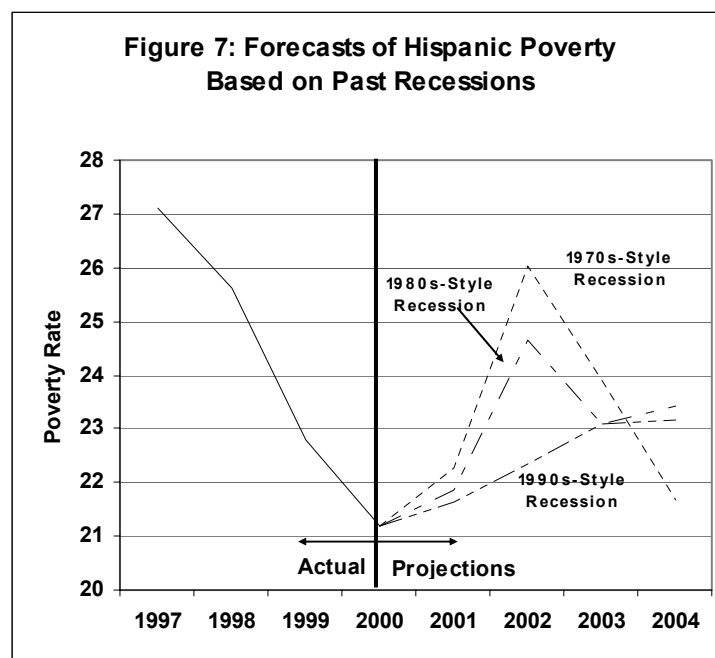


Based on the average Blue Chip Economic forecast, Hispanic poverty will rise from 21.2 percent in 2000 to 23.2 percent in 2002, and then will fall to 22.4 percent in 2004. See Figure 6. The optimistic and pessimistic Blue Chip forecasts provide a range for these estimates: in 2002, Hispanic poverty could reach as high as 23.9 percent or as

²² Christopher Farrell, “A Gossamer-Thin Safety Net,” *Business Week*, November 19, 2001, page 30.

low as 22.6 percent. Even under the average of the optimistic forecasts, Hispanic poverty does not reach its 2000 level by 2004.

The forecasts based on the Blue Chip Economic forecasts are relatively similar to the forecasts based on past recessions (especially the 1980s and 1990s recessions). If Hispanic poverty were to follow the path of the 1980s recession, it would rise to just over 24 percent in 2002 before falling to 23.4 in 2004; if it were to follow the path of the 1990s recession, the Hispanic poverty rate would increase slowly from its current 21.2 percent level to 23.2 percent in 2004.²³ If the current downturn mimics the 1970s recession, though, Hispanic poverty may increase substantially – rising to more than 26 percent in 2002 – before dropping sharply.



A similar analysis of what future economic conditions could mean to poverty among Hispanic children also suggests that Hispanic child poverty will increase somewhat in the next two years. If we use the Blue Chip Economic forecasts to predict

²³ It is important to note that during the 1990s recession the Hispanic poverty rate did not return to its pre-recession level until 1998. For comparison, the white poverty rate returned to its pre-recession level three years earlier (in 1995).

Hispanic child poverty, the estimate suggests that Hispanic child poverty will rise from 28.0 percent in 2000 to just over 29.3 percent in 2002 (with a range from 28.8 percent to 29.8 percent). For comparison, if the trend of Hispanic child poverty follows its trend during the 1980s and 1990s, it could increase to as high as 33.3 percent in 2002 before retreating (based on the 1980s recession) or increase gradually to 30.3 percent in 2004 (based on the 1990s recession).

III. How Well Prepared Are Hispanics for the Economic Downturn

The previous section examined how Hispanics may fare during the current economic recession. The purpose of this section is to explore how well prepared Hispanics are for these tougher economic conditions.

Personal Savings and Wealth Among Hispanics

When the economy weakens, many families will need to draw down existing savings to pay for consumption. But if a family's savings are small, or even non-existent, the economic downturn can quickly turn making ends meet from a challenge into a crisis. For example, the Bureau of the Census reported that only 26 percent of Hispanics reported receiving interest income from savings in 2000, compared to 55 percent of their white counterparts. In addition, among those families that have savings, Hispanics received significantly less interest income, on average: \$870 for Hispanics versus \$1,946 for whites.²⁴

Data from a different government survey – the Federal Reserve's Survey of Consumer Finances (SCF) – provides additional insight into the personal savings and assets of Hispanic families. See Table 6. In 1998, the median net worth of Hispanic families was \$9,720, which represents just 14 percent of the median net worth for all families. For comparison, the median net worth of African-American families was \$15,500 in 1998. The financial position of Hispanic families excluding debts and non-

²⁴ See Bureau of the Census, March Current Population Survey, available at <http://www.census.gov>

financial assets such as homes, cars, and business interests is even weaker: the median financial assets of Hispanic families in 1998 was \$1,200, or seven percent of the median financial assets for all families (\$17,320) and 39 percent of the median financial assets of African-American families (\$3,060).²⁵ But many financial assets, such as retirement savings, may be unavailable to families during the current economic downturn. Data from the SCF suggest that the typical Hispanic family has just \$600 in liquid financial assets.²⁶ (The mean financial position is somewhat better, but still significantly below the average for all families.) In addition, few Hispanic families were taking steps to strengthen their finances: in 1998, just 29.5 percent of Hispanic families had positive savings.

To provide a sense of how much Hispanic families need in savings, it is instructive to examine spending patterns. According to data from the Bureau of Labor Statistics' Consumer Expenditure Survey (CEX), the typical Hispanic family spent \$21,660 in 1998 – or \$1,805 per month. In 1998, the typical family did not earn enough after taxes to support that level of spending; after-tax income, according to data from the CEX, was \$19,780 for the typical Hispanic family. Thus, even during good economic times, Hispanic families were going into debt. That raises a substantial concern about what will happen if the income stream were to dry up. Most likely, many families would cut back on spending and begin to draw down their savings. If the median family were able to cut its spending in half, it would have less than three weeks of liquid reserves to draw upon in checking and savings accounts and less than six weeks of financial assets.

Thus, the combination of rising layoffs, lower incomes, and a low level of savings portends an extremely precarious situation for many Hispanic families during the current economic downturn. In the absence of sufficient private savings, such families may need

²⁵ Financial assets include checking accounts, savings accounts, money market accounts, call accounts at brokerages, CDs, stocks, bonds, mutual fund assets, IRAs, savings bonds, the cash value of life insurance, 401(k)s, other managed assets (such as annuities with equity interest and trusts), and other financial assets (such as royalties, non-public stocks, etc.).

²⁶ Liquid financial assets include only checking accounts, savings accounts, money market accounts, and call accounts at brokerages.

to rely upon the social safety net to support minimal levels of consumption during an economic downturn.

Table 6: Net Worth, Financial Assets, Liquid Assets, and Savings Among Hispanic Families, 1998			
	<u>Hispanics</u>	<u>Overall</u>	Hispanics as Share of Overall
All Families			
Median Net Worth	\$ 9,720	\$ 71,700	13.6%
Mean Net Worth	\$ 86,895	\$ 282,980	30.7%
Median Financial Assets	\$ 1,200	\$ 17,320	6.9%
Mean Financial Assets	\$ 32,656	\$ 134,271	24.3%
Median Liquid Assets	\$ 600	\$ 2,500	24.0%
Mean Liquid Assets	\$ 8,239	\$ 15,242	54.1%
Percent Saving in 1998	29.5%	41.7%	70.7%
Families With Children Under 18			
Median Net Worth	\$ 8,800	\$ 47,450	18.5%
Mean Net Worth	\$ 94,141	\$ 233,841	40.3%
Median Financial Assets	\$ 800	\$ 13,000	6.2%
Mean Financial Assets	\$ 31,268	\$ 302,096	10.4%
Median Liquid Assets	\$ 400	\$ 2,000	20.0%
Mean Liquid Assets	\$ 6,646	\$ 11,187	59.4%
Percent Saving in 1998	27.6%	36.4%	75.8%

Source: Author's calculations of Survey of Consumer Finance, various years.

The Social Safety Net

The social safety net functions as a cushion to dampen the blow from an economic downturn. A key component of the social safety net periods of high unemployment is unemployment insurance, but other programs – such as food stamps, welfare, and job training initiatives – also play an important role in helping families stay on their feet during a difficult period. This section briefly explores the role these programs play in helping workers through severe economic times.

Unemployment Insurance

Unemployment insurance (UI) provides eligible workers income support when they have been laid off due to no fault of their own and are able, available, and looking for work. While benefit levels are determined by each state, they generally represent 40 to 50 percent of previous wages. That is, if a worker earned \$500 per week, UI generally “replaces” \$200 to \$250 of that amount. Such benefits are provided for up to 26 weeks.

UI plays an important role in helping families make ends meet. A paper by Jonathan Gruber, an economics professor at MIT, found that a family’s spending on food would fall by 22 percent, on average, if the head of the household became unemployed in the absence of UI, but by only 7 percent in the presence of UI.²⁷

Unfortunately, many Hispanic workers will not receive unemployment insurance benefits: only about 40 percent of all unemployed workers receive UI benefits. The 40 percent reciprocity rate represents three factors: not all eligible unemployed workers apply for benefits; many workers are ineligible for benefits because of their past work records; and unemployed workers who are unable to actively search for full-time work are ineligible for benefits in most states.

Academic evidence suggests that minorities are somewhat less likely to apply for UI benefits than whites. For example, Blank and Card (1991) used two data sets and a number of different statistical techniques to analyze the differential take-up rates of minorities and whites. Using data from the early 1980s, they found that non-whites were three to six percent less likely than whites to apply for UI benefits, but the difference was not always statistically significant. Using Current Population Survey data, Blank and Card found small, statistically insignificant negative effects on minority status on UI take-up rates.

²⁷ See Gruber (1997).

In October 2001, eleven percent of unemployed Hispanics – or 127,000 people – had been out-of-work for 27 weeks or more; for the above-mentioned reasons, some of these workers may not have received UI benefits.²⁸ The workers who are eligible and received UI could benefit from an extension of UI benefits. Moreover, in 31 states, people who are looking for part-time work are ineligible for unemployment benefits. In many cases, employees cannot work full-time hours because they have to take care of a child or a parent. Even though part-time workers pay UI taxes, they cannot receive benefits in most states (if they are looking for part-time work).²⁹ Proposals to extend UI benefits to workers seeking part-time work, therefore, could be beneficial to Hispanics.

Other Social Safety Net Programs

Besides unemployment insurance, a number of other Federal and state programs fill out the social safety net. These programs include:

- *Food stamps.* The food stamp program provides nutritional benefits to working and non-working poor families. In March 2001, 17.3 million people – most of whom are children – benefited from food stamps.³⁰ Each family's benefit depends on the size of the household, the family's gross income, and the family's expenses (e.g., housing costs) that significantly impact the family's ability to purchase a nutritionally adequate diet. The maximum food stamp benefit for a family of four is \$434 per month; the average benefit, however, during the first six months of Fiscal Year 2001 was less than \$75 per person per month. A study by the United States Department of Agriculture examined why families applied for food stamps. For the roughly four-fifths of applicants that they could determine why they applied, about 75 percent had recently suffered a sharp drop in earnings, had exhausted his or her 26 weeks of unemployment insurance, or the primary wage earner had departed the household. Thus, if the Hispanic unemployment rate rises

²⁸ Bureau of Labor Statistics, Current Population Survey.

²⁹ According to the Bureau of Labor Statistics, 1.9 million Hispanics worked part-time in October 2001.

³⁰ David Super, "Background on the Food Stamp Program," Center on Budget and Policy Priorities, July 10, 2001.

as forecasted in Section III, food stamps will play an important role in bolstering a family's standard of living.

- *Job training programs.* Another important part of the social safety net is the variety of job training programs available to unemployed workers. These programs, in particular the Department of Labor's dislocated worker program and trade adjustment assistance program (which provides job training and income support to workers who lost their jobs due to an increase in imported goods), are critical in an economic downturn. The research that has been conducted on these job training programs shows that they are effective at helping people get a good job when they are targeted at experienced workers and training of marketable skills is provided.³¹ Since Hispanic workers are more likely to become unemployed than other workers, these job training programs may be particularly essential in helping Hispanics who lose their jobs in one sector get retrained for skills to get a job in another sector.
- *Other initiatives.* For Hispanic families with children, they could potentially benefit from the Temporary Assistance for Needy Families (TANF) program. In addition, since most health care coverage is employer provided, when workers lose their job, they often lose health care coverage for their family. COBRA health care benefits allow workers to "buy back in" to their former health care plan. But two in five Hispanics of worker age do not have health care insurance and would thus be ineligible for COBRA.³² And for those that could buy back into COBRA health coverage, many Hispanics cannot afford it.

³¹ See United States Department of Labor (1995).

³² Friedrich (2001).

IV. Conclusion

In both absolute and relative terms, Hispanics are (a) more likely to feel the negative impact of the current economic recession and (b) less prepared for the adverse consequences of the downturn.

Based on the extant forecasts for the U.S. economy, we project that Hispanic unemployment will likely rise to roughly 8.5 percent (from 7.6 percent in November 2001 and 5.7 percent in 2000). However, those forecasts may be unduly optimistic given the uncertainties surrounding the war on terrorism and the economic slowdown, and the experience from past recessions suggests that the increase in Hispanic unemployment could be even greater – to over 10 percent.

In addition, the Hispanic unemployment rate may not bounce back as rapidly as other groups following the recession. For example, during the early part of the expansion following the 1990s recession, Hispanic unemployment did not fall as quickly as the white or African-American unemployment rates. The white and African-American unemployment rates returned to roughly their pre-1990s recession level by the beginning of 1995. The Hispanic unemployment rate did not fall to its pre-1990s recession level until December 1996. If Hispanic unemployment were to follow that path during the current economic slowdown, the Hispanic unemployment rate would not fall below 6.4 percent (its level in September 2001) until March 2008; for comparison, the white and African-American unemployment rates would return to roughly their pre-recession levels by early 2006.

Hispanic family income is likely to fall by between \$1,000 and \$3,000, and Hispanic poverty is expected to rise from its current level of 21.2 percent to 23 percent or 24 percent. It is important to note that median Hispanic family income was especially sluggish during the 1990s: it did not return to its pre-recession level until 1999. If the income of the median Hispanic family were to follow such a path during the current decade, it would not rise above its 2000 level until 2010. For comparison, the median

income of African-American families rebounded to its 1989 level by 1994, and the median income of white families returned to its pre-1990 recession level by 1996. It is thus clear that Hispanic workers and families will likely feel the brunt of the economic downturn.

But of particular concern is that Hispanic families are not well prepared for the current economic downturn. In 1998, the median financial assets of Hispanic families in 1998 was \$1,200, or seven percent of the median financial assets for all families (\$17,320) and 39 percent of the median financial assets of African-American families (\$3,060). But many financial assets, such as retirement savings, may be unavailable to families during the current economic downturn. Our analysis suggests that the typical Hispanic family will have roughly \$600 in liquid financial assets to help weather the current economic storm. In addition, unemployment insurance – while effective at blunting the impact of the recession – is unlikely to be as helpful to Hispanics as other workers.

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